JOURNAL OF SMALL BUSINESS STRATEGY

IMPACT OF OPERATIONAL PLANNING ON SMALL BUSINESS RETAIL PERFORMANCE

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ABSTRACT

This study examined operational planning activities (inventory, marketing, financial, and personnel) of successful (n=92) and failed (n= 91) small business apparel and accessory retailers. Results suggest that inventory, marketing, and financial planning activities significantly differed between groups with successful retailers being more likely than failed retailers to engage in such functions. No differences were found between groups in personnel planning. Study implications are discussed for small business practitioners and academic researchers.

INTRODUCTION

The strategic planning process has been touted as a critical activity in gaining a competitive advantage in the small business sector. Through long-term strategic planning, businesses create a plan for market differentiation and positioning (Scarborough & Zimmerer, 1987) leading to greater levels of success. The impact of strategic planning on small business performance has been well documented over the past decade (Bracker, Keats, & Pearson, 1988; Robinson, Salem, Logan, & Pearce, 1986; Schwenk & Shrader, 1993; Sexton & Van Auken, 1985) but little research has been directed toward the short-term operational planning aspects of the strategic planning process. Recognizing the importance of operational planning, Robinson, Logan, and Salem (1986) noted that "operational plans serve a major role in the implementation of business strategies by translating strategic plans into functional areas" (p. 8). Past research on operational planning in the small business setting has been virtually ignored (Bracker, 1982; Robinson, Salem, et al., 1986; Salem, 1984).

This research study was undertaken to investigate differences in operational planning activities between successful and failed small business retailers. Small business apparel and accessory retailers in Iowa were selected as the industry for analysis due to strong industry representation (Census of Retail Trade for Iowa, 1982). Using a sample of 91 failed and 92 successful small business retailers, this study examined differences in the use of market, financial, personnel, and inventory planning between firms that are successful and those that failed. The implications of these results for the small business practitioner and future research are discussed.

This research was funded in part by the Iowa Small Business Development Center and Iowa State University Cooperative Extension (Rural Development).

PLANNING ACTIVITIES IN SMALL BUSINESS: THE LITERATURE

Planning, the process of identifying and defining specific activities to reach set goals, can effectively maximize the organization's internal and external environment in a systematic manner (Gibb & Scott, 1985). The role of planning has long been recognized to be an important part of managerial activities. However, problems have been noted in making generalizations about management practices applicable to all situations (Robinson, Logan, et al., 1986). Contingency theory suggests that in practice, different approaches (or the same approach) can be applied in different ways to different situations (Filion, 1988). Hofer (1975) identified firm size to be a critical contingent variable when designing effective strategic planning processes. Lindsay and Rue (1980) observed that large firms and small firms differed in their use of long range planning activities. Studies are emerging in which firm size is taken into consideration when examining planning practices and performance of small businesses (Schwenk & Shrader, 1993).

Strategic planning research over the past decade has addressed several issues including sources of information used in the planning process (Bracker & Pearson, 1985; Specht, 1987), planning related to stages of development (Robinson, Pearce, Vozikis, & Mescon, 1984), planning characteristics (Jones, 1982), and, to a greater extent, the effects of the strategic planning process on business performance (Bracker et al., 1988; Orpen, 1985; Robinson, Salem, et al., 1986; Schwenk & Shrader, 1993; Sexton & Van Auken, 1985). The findings of the strategic planning and performance literature has, however, reported conflicting results (Orpen, 1985; Schwenk & Shrader, 1993). Schwenk and Shrader (1993) noted that:

> some [researchers] claim that formal strategic planning provides structure for decision making, helping small business managers take a long-term view, and, in general, benefits small firms; others conclude that formal strategic planning has no potential payoff for small firms because it is a heady, high-level, conceptual activity suited solely to large firms and has no effect on the financial performance of small firms (p. 53).

In an attempt to determine if strategic planning significantly and positively affects performance, meta-analysis was applied by Schwenk and Shrader (1993). Researchers concluded from the analysis that strategic planning is a positive and beneficial activity for small businesses. Factors associated with planning and positively related to performance include formalized planning, analytical planning, quality of planning, and personal commitment to planning (Ackelsberg & Arlow, 1985; Bracker et al, 1988; Gibb & Scott, 1985; Orpen, 1985; Robinson, Salem, et al., 1986).

The importance of the planning process has also been addressed in the failure literature. Wichmann (1983) and Clute (1979) have identified deficiences in planning areas as a factor attributed to small business failure. Gaskill, Van Auken, and Manning (1993), in a comprehensive study of factors perceived to contribute to small business failure, found failure factors in four areas including deficiencies in managerial and planning functions. Evidence was presented suggesting that a positive relationship exists between amount of planning and financial performance. According to Gaskill, et al. (1993), "without good planning, the firm's performance deteriorates in many ways. The ability of the firm to successfully compete against competitors, to target market niches, and to offer salable goods are part of the business planning process" (p. 27).

Past researchers have identified the importance of both long-range strategic planning and short-range operational planning in small business operations (Robinson, Salem, et al., 1986; Robinson, Logan, et al., 1986; Salem, 1984), but very little research has been directed toward the short-term operational planning aspects of the strategic planning process. Recognizing the importance of operational planning, Robinson, Logan, et al. (1986) note that "operational plans serve a major role in the implementation of business strategies by translating strategic plans into functional areas" (p. 8).

Researchers, however, have found a lack of systematic planning in small business. Robinson and Pearce (1984) attribute the absence of planning to time constraints, limited knowledge of the planning process, lack of specialized expertise, and lack of trust and openness. Aram and Cowen (1990) noted that businesses tend to avoid planning, thinking such activities are suitable only for big business. Scarborough and Zimmerer (1987) suggest that, due to the size and characteristics particular to small business, the planning process should be informal and not overly structured. In contrast, Ackelsberg and Arlow (1985) found small businesses engaged in planning activities by assessing strengths and weaknesses to formalize a written plan inclusive of goals and budgets. Ackelsberg and Arlow (1985) also found that the small business planning process differed according to the type of the small business. For example, purchase and inventory planning would be of greater relevance to retailers than to service-oriented small businesses.

In a study of small independent food retailers, Robinson, Salem, et al. (1986) found specific operational planning activities in the areas of marketing, personnel, financial, and inventory planning to be highly related to performance. Similarly, Orpen (1985) found that high and low performance firms differed in the areas or issues that were considered in the planning process. High performing firms considered a wider range of business functions and issues than low performing firms.

Market Planning Functions

Market planning generally concerns issues relating to situational analysis, objectives and goals, strategy statements, action programs, and budget and controls (Varadarajan, 1985). Marketing as a planning function is an area that is observed to be frequently ignored by small business. Carson (1985) determined the main constraints on small business marketing to be limited resources, lack of specialized marketing, and perceived limited impact on the market. Limited financial resources have also been found to be a major problem in conducting marketing activities (Weinrauch, Mann, Robinson, & Pharr, 1991). In comparison, Robinson, Salem, et al. (1986) found that key marketing activities frequently practiced and influencing business profitability included analyzing changes in target customers, competitive analysis, and making sales projections. Research suggests that marketing plays an important role in the ability of the small business to adapt to its environment and that the tendencies of small business to engage in market planning activities may influence business performance.

Financial Planning Functions

Studies suggested that planning in the financial area is widespread among successful small businesses. A firm's financial position constantly changes as a result of the continuous inflow and outflow of financial resources. Robinson, Salem, Logan, and Pearce (1986) found preparing a detailed monthly cash flow projection to be significantly related to firm performance. Ackelsberg and Arlow (1985) found that planning-oriented small businesses paid more attention to internal factors such as cash sales, profitability and costs, and also external factors such as the economy.

Personnel Planning Functions

Small business retailers perceive assistance in the area of employee relations to be unnecessary due to the fact that small businesses employ a relatively small number of employees (Peterson, 1984). However, small businesses are usually understaffed leading to heavy work loads for employees (Filion, 1988) resulting in productivity problems among small firms (Miller, 1982). Miller found that productivity rates were lower in small firms compared to large firms. Wichmann (1983) noted that entrepreneurs should realize that lack of "well-trained personnel are often considered more critical problems for a small firm than lack of capital" (p. 20). Better management of personnel by the owner/manager may improve employee effectiveness and increase the productivity of the business. Robinson, Salem, et al. (1986) found that 37 percent of small food retailers engaged in a high level of operational personnel planning. Moreover, the planning activity of reviewing and setting labor cost standards at least once a year was found to be significantly related to business performance. Research suggests that small business personnel management and specific planning activities are positively related to the economic performance of the small business.

Inventory Planning Functions

The relevancy of inventory planning differs based on type of business. Grablowsky (1984) found the average turnover for small businesses in the retail industry was 5.2, suggesting excessive inventory. In contrast, inventory management was not considered an area in which management assistance was needed by participants whose primary business offering was service (Peterson, 1984). However, Robinson, Salem, et al. (1986) found that reviewing the adequacy of minimum inventory levels significantly related to the performance of independent food retailers. Proper management of inventory is critical to profitability because of the large investment small businesses must make to acquire merchandise (Grablowsky, 1984).

Robinson and Pearce (1984) stress the importance of research into the small business planning process in the retail setting since retail businesses (along with service and construction) dominate the small business environment. Ackelsberg and Arlow (1985) note the lack of research efforts addressing the relationship between business planning and firm performance. Armstrong (1991) calls for more research to determine what planning techniques are most useful. Gaskill et al. (1993) note that research is needed to determine differences in operational planning activities between successful and failed small business retailers. Past researchers have recommended that samples selected for study be as homogenous as possible to reduce complexity and increase clarity. Although empirical research related to planning in the small business literature has increased, the extent to which practical conclusions can be drawn are limited (Robinson, Salem, et al.1986).

Research Hypotheses

Based on the literature review, four hypotheses were proposed in this study.

H1: Successful small businesses will report higher levels of market planning compared to failed small businesses.

H2: Successful small businesses will report higher levels of financial planning compared to failed small businesses.

H3: Successful small businesses will report higher levels of personnel planning compared to failed small businesses.

H4: Successful small businesses will report higher levels of inventory planning compared to failed small businesses.

METHODOLOGY

The purpose of this study is to investigate differences in operational planning activities (market, financial, personnel, and inventory) between successful and failed small businesses retailers. Small business apparel and accessory retailers in Iowa were selected as the industry for analysis due to intensive industry representation (*Census of Retail Trade* for Iowa, 1982).[1]

Sample

The study sample consisted of both successful and failed small business apparel and accessory retailers. Small business retailers who experienced business discontinuance between 1987 and 1988 were identified through the Iowa Department of Revenue Sales Tax Permit tapes using Standard Industrial Classification (SIC) code numbers to identify retailers with apparel and accessory product lines.[2] Intensive tracking yielded 110 previous business owners. Additional small business retailers who experienced discontinuance between 1988 and 1991 were located through input from 158 of the 181 (87.3 percent) Iowa Chamber of Commerce Directors. Commerce Directors, located through the *World Chamber of Commerce Directory* (1990), identified an additional 135 past business owners. Through these varied sources, 245 businesses were identified. Follow-up contacts with the identified businesses indicated that 40 past businesses were ineligible in the study (still in operation, nonclothing/accessory business, etc.). The identified sample of discontinued small business retailers, therefore, consisted of 205 apparel and accessory small business owners who discontinued operation between 1987 and 1991.

Successful, currently existing small business retailers were identified through Sales Tax Permit data collected from the Iowa Department of Revenue Sales Tax Permit tapes. Apparel and accessory retailers also were identified through the use of SIC code numbers. Two hundred and thirty retailers were identified using a systematic random selection procedure.

For the purpose of this study, failed small business retailers consisted of those individuals who were out of business and had discontinued their business due to financial failure. Reasons included avoiding financial loss, to pay off creditors, or a general inability to make a business profit. Successful small business retailers consisted of retailers who were currently in operation and in existence. No attempt was made to determine level of success based on economic performance. Dess and Robinson (1984) note that empirical studies addressing business strategies and organizational performance commonly use success or failure as a measure of performance.

[1] *In accordance with the U.S. Small Business Administration, small business in retailing was defined as a retail store having fewer than 100 employees (U.S. Small Business Administration (1990, p. 10).*

[2] *Standard Industrial Classification Codes included in this study were SIC #5611 (Men's and Boy's Clothing and Accessory Stores), SIC #5621 (Women's Clothing Stores), SIC #5632 (Women's Accessory and Specialty Stores), SIC #5641 (Children's and Infant's Wear Clothing Stores), SIC #5651 (Family Clothing Stores), SIC #5661 (Shoe Stores), and SIC #5699 (Misc. Apparel and Accessory Stores).*

Instruments

Data collection instruments included both telephone interviews and mailed questionnaires. Telephone interviews were used to identify the subset of past retailers who discontinued business as a result of financial failure.

Mailed questionnaires containing a subjective operational planning measure were then used to determine operational planning differences between the discontinued failed business retailers and the currently existing successful retailers[3]. Operational planning activities were measured using the Robinson, Salem, et al. (1986) operational planning instrument to determine the extent to which specific market, financial, inventory, and personnel planning activities were/are part of regular business practices. The planning measure was originally developed based on small business literature and screened by a panel of retail business experts. Respondents were asked to rate the extent to which specified planning activities (e.g., "Estimating the store needs of different inventory items for a period of six to twelve months") were part of the stores' regular business practices using a 5-point Likert-type scale ranging from 1 (to a very little extent) to 5 (to a very great extent). The original instrument consisted of 47 items with an item reliability of .95 (Cronbach's alpha). For the purpose of this study, omissions were made in the personnel planning segment of the instrument to address a small business apparel retail orientation. Thirty-seven items rather than the original 47 items were used to measure differences in operational planning activities between groups. In addition, data were collected on demographics and the business background of the study participants to aid in profiling the sample.

A modified version of Dillman's *Total Design Method* (1978) was used in administering and collecting the mailed questionnaires. Study participants were initially mailed a questionnaire, followed two weeks later by a reminder letter to non-respondents. A second questionnaire was mailed to non-respondents two weeks later followed by a second reminder. An executive summary of the results served as the incentive for completion.

RESULTS

Of the 205 discontinued small business retailers, 182 (88.8 percent) were located and contacted through telephone interviews. During the telephone interview process, 130 of the 182 retailers (71.4 percent) indicated discontinuance due to financial failure. Ninety-one of the possible 130 (70 percent response rate) retailers who indicated financial failure subsequently completed mailed questionnaires. Of the 230 successful and currently existing business owners, 92 (40 percent) completed and returned usable questionnaires.

Participant Profile

The demographic and business background characteristics between the two groups were surprisingly similar. Over 60 percent of retailers were female (successful 67 percent, failed 64.6 percent) and the majority of the retailers were married (successful 85.7 percent, failed 88.4 percent). In terms of education, 70 percent of the successful retailers had completed college. For

[3] *In a study to determine the usefulness of subjective performance measures when objective performance data is not available to the researcher, Dess and Robinson (1984) found that subjects' perceptions of performance (related to return on assets and sales growth) was consistent with actual performance. Dess and Robinson conclude that subjective perceptual measures related to performance are useful when accurate objective information is unavailable. The sample segment of non-existent businesses warranted the collection of subjective measures of business planning activities.*

failed retailers, 61.3 percent had a college degree. Seventy-eight percent of successful retailers were currently in double income households with over 71 percent earning over $30,000. A smaller percentage of the failed small business owners (56.6 percent) currently were in double income households with 55.3 percent earning over $30,000 annually.

The largest percent of the successful and failed small business retailers indicated a sole ownership strategy (56.5 percent and 59.4 percent, respectively). In terms of business start-up, over half of the businesses were started as a new business (successful 50.5 percent, failed 54.3 percent). When possible, data were collected specifically from the small business person (owner, manager, owner/manager) identified to be the primary decision maker. The majority of the respondents of failed small businesses identified themselves as owners/managers (83.1 percent), whereas, 44.6 percent of the respondents of successful businesses were owners; 40.2 percent were owners/managers. Finally, the largest percent of both the successful and failed respondents indicated a downtown area store location (47.8 percent and 70.8 percent, respectively).

In summary, the average respondent was female, married, college educated, and in a double income household with earnings over $30,000 annually. The largest percent of respondents were/are sole owners/managers of their business which tended to be located in a downtown area.

Operational Planning Activities

Reliability of the Robinson, Salem, et al. (1986) operational planning measure was determined through Cronbach's alpha. Reliability of the market planning items was a respectable .93; the financial items had an item reliability of .92; personnel items had an item reliability of .90; and the reliability of the inventory items was .93.

Mean scores for the market planning items are identified in Table 1. As indicated, successful business owners engaged to a great extent in "Developing a plan of action which specifies the combination of promotional techniques such as attractive displays, coupons, samples, customer services, and personal selling needed to support sales goals" (mean = 3.81). This planning activity was also the highest rated market planning function for the failed retailers (mean = 2.98) along with "Estimating what sales volume and dollar sales your firm expects to reach in a period of 6-12 months" (mean = 2.98).

Table 1

Operational Planning Activities of Successful and Failed Small Business Owners

	Successful		Failed		Difference
	Mean	S.D.	Mean	S.D.	F
Market Planning					
1. Forecasting on a regular basis future economic and business conditions in your market area for a period of six to twelve months and assessing their probable impact on the sales.	2.64	1.23	2.35	1.32	2.35
2. Analyzing on a regular basis the possible changes that will take place within a year or less among your target customers (such as needs, location, size, income, and location).	2.84	1.23	2.37	1.28	6.28*
3. Collecting and analyzing data on a regular basis concerning your major competitors regarding prices, quality, sales, service, and promotions.	2.92	1.22	2.39	1.32	8.01**
4. Analyzing major products on a regular basis in terms of achieving sales and profit goals.	3.30	1.18	2.60	1.45	1~.84**
5. Estimating what sales volume and dollar sales your firm expects to reach in a period of six to twelve months.	3.4~	1.19	2.98	1.50	6.35**
6. Setting and monitoring a realistic and numerical sales target you shoot for on a monthly and/or quarterly basis.	3.32	1.27	2.88	1.54	4.40*
7. Determining at which sales volume your store will break even.	3.49	1.17	2.61	1.48	20.14***
8. Monitoring and readjusting pricing policy based on an analysis of demand, competition and cost considerations.	3.40	1.24	2.59	1.41	17.03***
9. Developing a plan of action which specifies the combination of promotional techniques such as attractive displays, coupons, samples, customer services, and personal selling needed to support your sales goals.	3.81	1.20	2.98	1.47	17.43***

Note. *Scale: 1 = To a very little extent, 2 = To a little extent; 3 = To some extent; 4 = To a great extent; 5 = To a very great extent.*
$^{***}p < .001$. $^{**}p < .01$. $^{*}p < .05$.

Table 1 Cont.

Operational Planning Activities of Successful and Failed Small Business Owners

	Successful Mean	Successful S.D.	Failed Mean	Failed S.D.	Difference F
Market Planning (cont.)					
10. Determining ahead of time what kind and how much advertising your business needs for a period of six to twelve months and planning an advertising program and budget.	2.98	1.19	2.73	1.43	1.64
11. Conducting an informal assessment on a continuous basis of customer satisfaction.	3.34	1.21	2.63	1.42	13.33***
12. Reviewing and planning to improve the business image on a regular basis.	3.62	1.06	2.89	1.44	14.95***
13. Comparing sales results on a regular basis to sales quotas and expectations.	3.66	1.26	2.96	1.59	10.99***
Financial Planning					
14. Preparing a projected income statement for six to twelve months.	2.96	1.20	2.46	1.46	5.89*
15. Preparing a cash flow projection (receipts and disbursements) for six to twelve months ahead.	2.98	1.25	2.54	1.57	4.29*
16. Formulating an annual financial statement.	3.81	1.32	2.82	1.69	19.74***
17. Preparing a detailed profit and loss statement and compare with expectations.	3.63	1.46	2.59	1.72	19.38***
18. Accounts payable (debt) continuously gets proper attention before they are due at least a month ahead	3.70	1.28	2.98	1.60	11.49***
19. Preparing a detailed monthly cash flow projection.	2.93	1.32	2.38	1.53	6.84**
20. Analyzing and monitoring operating, selling, and overhead expenses to ensure they are in line with expense budget.	3.41	1.27	2.76	1.59	9.17**
21. Considering several possible tax alternatives and developing a plan to minimize the store's tax obligation on an annual basis.	2.69	1.41	2.60	1.56	.17
22. Estimating future short range borrowing needs	3.02	1.51	2.39	1.57	7.66**
23. Setting a numerical profit goal for the year.	3.63	1.54	3.18	1.30	6.68**

Note. Scale: 1 = To a very little extent, 2 = To a little extent; 3 = To some extent; 4 = To a great extent; 5 = To a very great extent.
$^{***}p < .001$. $^{**}p < .01$. $^{*}p < .05$.

Table 1 Cont.

Operational Planning Activities of Successful and Failed Small Business Owners

	Successful		Failed		Difference
	Mean	S.D.	Mean	S.D.	F
Personnel Planning					
24. Annually assessing personnel capabilities.	2.93	1.40	2.75	1.59	.67
25. Annually reviewing and setting employee performance productivity standards.	2.68	1.41	2.38	1.53	1.88
26. Determining factors of discontent and a specific annual action plan to improve job satisfaction.	2.82	1.36	2.39	1.47	4.02*
27. Analyzing training needs at least annually.	2.44	1.26	2.22	1.44	1.17
28. Reviewing personnel practices for compliance with the law at least once a year.	2.64	1.44	2.27	1.42	2.86
Inventory Planning					
29. Estimating the store needs of different inventory items for a period of six to twelve months.	3.76	1.26	2.85	1.61	16.20***
30. Periodically reviewing the adequacy of the minimum inventory level for each major item.	3.69	1.23	2.84	1.54	17.00***
31. Monitoring the adequacy of stock level at least once a year.	3.92	1.18	3.08	1.65	15.60***
32. Reviewing and estimating the time required between placing the order and receiving the shipment for each item at least once a year.	3.54	1.42	2.58	1.65	17.61***
33. Ordering the proper inventory site on a regular basis.	3.87	1.14	3.05	1.60	15.48***
34. Reviewing purchasing policies at least once a year.	3.56	1.35	2.62	1.59	18.45***
35. Analyzing major items turnover on a monthly basis.	3.47	1.30	2.70	1.49	13.95***
36. Collecting information on the availability of new sources of material.	3.60	1.24	2.83	1.48	14.56***
37. Analyzing the cost of placing an order, cost of purchasing, and cost of keeping inventory at least once a year.	3.27	1.45	2.38	1.60	15.34***

Note. Scale: 1 = To a very little extent, 2 = To a little extent; 3 = To some extent; 4 = To a great extent; 5 = To a very great extent.
***$p < .001$. **$p < .01$. *$p < .05$.

An analysis of variance (ANOVA) between groups on the market planning items indicates that successful business owners were significantly more likely to engage in 11 of the 13 market planning activities than were the failed business owners. Activities where no significant differences were noted included "Forecasting on a regular basis future economic and business conditions in your market area for a period of 6 to 12 months and assessing their probable impact on sales" and "Determining ahead of time what kind and how much advertising your business needs for a period of 6 to 12 months and planning an advertising program and budget".

In the financial segment of the operational planning measure, the successful business owners' were significantly more likely than the failed owners to engage in financial planning activities in all but one area. No difference was found between groups in the activity of "Considering several possible tax alternatives and developing a plan to minimize the store's tax obligation on an annual basis". The highest rated financial planning activity for the successful retailers was "Formulating an annual financial statement" (mean = 3.81); the lowest rated item for this group was "Considering several possible tax alternatives and developing a plan to minimize the store's tax obligation on an annual basis" (mean = 2.69). The highest rated item for failed retailers was "Accounts payable (debt) continuously gets proper attention before they are due at least a month ahead" (mean = 2.98); the activity receiving the lowest rating (mean = 2.38) was "Preparing a detailed monthly cash flow projection".

No significant differences emerged in personnel planning with one exception. Successful owners were more likely than the failed business owners to "Determine factors of discontent and develop a specific annual action plan to improve job satisfaction" (mean = 2.82 and 2.39, respectively). Both successful and failed retailers rated "Annually assessing personnel capabilities" the highest (mean = 2.93 and 2.75, respectively). "Analyzing training needs at least annually" was rated the lowest by successful retailers (mean = 2.44) and by the failed retailers (mean = 2.22).

In the area of inventory planning, all areas were found to differ between groups (see Table 1). Successful small business owners were significantly more likely to engage in inventory planning activities than were the failed business owners. Successful retailers indicated they engage in "Monitoring the adequacy of stock level at least once a year" to a great extent (mean = 3.92). Highest ratings were also given to stock monitoring activities by the failed retailers. The lowest rated items for both successful and failed small business retailers was "Analyzing the cost of placing an order, cost of purchasing, and cost of keeping inventory at least once a year" (mean = 3.27 and 2.38, respectively).

In a final analysis of the planning measure, ANOVA was used to determine if significant differences between groups existed on the four planning subscales (i.e., marketing, personnel, financial, inventory). The results indicate that marketing, financial, and inventory planning significantly differed between groups ($p < .001$). Successful small business retailers were significantly more likely than the failed business owners to engage in market, financial, and inventory planning. No significant differences were found in personnel planning activities (see Table 2).

Table 2

Differences Between Successful and Failed Small Businesses on Operational Planning Subscales

	Successful		Failed		Difference
	Mean	S.D.	Mean	S.D.	F
		Operational Planning Subscales			
Marketing	42.7	11.4	34.9	13.8	17.14***
Financial	32.2	10.3	26.1	12.7	12.74***
Personnel	13.0	6.0	12.0	6.4	1.37
Inventory	32.0	10.1	24.9	11.7	19.27***

*** $p < .001$.

DISCUSSION AND CONCLUSIONS

The study results demonstrate the value of operational planning in the small firm. The results support the hypotheses that successful small firms exhibit greater market, financial, and inventory planning than failed firms, while not supporting the hypothesis that successful firms have higher levels of personnel planning than failed firms. The mean scores of all variables in the study were higher for the sample of successful owners than for the sample of failed owners.

An implication of this finding is that operational planning may positively impact the likelihood of firm success, which is consistent with Robinson and Littlejohn (1981) and Orpen (1985). The absence of support for the importance of personnel planning may indicate that all firms, successful and failed, recognize the importance of personnel planning. These results suggest that small business owners and their consultants would be well advised to devote sufficient resources to market, financial, and inventory planning.

These results provide business owners with a better understanding of the specific types of market, financial, and inventory planning activities in which successful firms are involved. The high failure rate of small business is well known. By improving operational planning activities in these areas, smaller firms may avoid the resulting distress that was likely experienced by the failed firms. For example, the first six market planning variables are related to establishing a market identity and market position relative to the relationship between price and volume. This result, similar to Robinson, Salem, et al. (1986), indicates the importance that business owners should give to matching market niche to product characteristics.

Liquidity constraints have been shown to be a common problem for smaller firms (Carter & Van Auken, 1990). Robinson, Salem, et al. (1986), Ackelsberg and Arlow (1985), and Potts (1977) report on the important contribution of financial management to firm performance. Poor financial management has been cited as a common factor related to poor performance (Brigham & Gapenski, 1991). The greater involvement in all areas of financial planning (except tax planning) by the successful owners confirm the importance of controlling expenses, preparation of financial statements, and cash budgeting, which are the basics of the financial management of the firm.

Inventory planning, which enables smaller firms to offer the right combination of product, price, location, quantity and time, is closely related to market planning and financial planning (Lewison, 1989). Inventory planning has implications on multiple aspects of the firm's operations. Inappropriate inventory management affects firm performance through, for example, lost market opportunities and customers (Brigham & Gapenski, 1991). Robinson, Salem, et al. (1986) identified the importance of carrying adequate inventory levels, while Grablowsky (1984) discussed the impact on profitability of carrying excessive levels of inventory. This study provides evidence that successful small business owners focus less on inventory ordering and more on other aspects of inventory management.

In addition to increasing insight into the importance of operational planning in small business performance, this study contributes to the literature by offering a glimpse into select activities of an important segment of small businesses--those businesses that failed. According to the U.S. Small Business Administration, 63 percent of new businesses will fail within their first six years of operation (Scarborough & Zimmerer, 1993). It would appear that research into the profiles and practices of failed small business owners would provide pertinent information on practices to be avoided and would be instrumental in establishing stepping stones for successful small business operations. Gaskill et al. (1993) calls for comparative studies between successful and failed small business retailers but notes the difficulties involved in obtaining usable samples of failed businesses. Despite difficulties in sample location, more effort should be made by academic researchers to study business failure from those who actually have experienced business failure. There is a wealth of information to be collected and much to be learned from this group of past business owners.

This study raises a number of issues for further research. An important issue not addressed by this study is the relationship between operational planning, strategic planning, and firm performance. Robinson and Pearce (1984) and Cochran (1981) have emphasized the importance of focusing research studies on single industries within specific regions of the country. Future studies could provide greater insight into the role of operational planning within the firm relative to other regions of the U.S., market characteristics (i.e., urban vs. rural), and other industries. Insight into the functional roles of small business owners and/or managers has yet to be addressed in the small business literature. The fact that primary decision makers for the failed firms tended to identify themselves as owner/manager, whereas, for successful firms, decision makers tended to identify themselves as either manager or owner leads to an interesting question for further research (i.e., what are the functional distinctions between owners and managers in the small business environment and what impact might these differences have on business operations and performance?). Other avenues of study might include the extent of operational planning relative to firm size as well as other demographic characteristics. Extending operational planning research to include women- and family-owned small businesses also offers opportunity to extend and better understand the role of planning, and keep abreast of current trends in small business.

Small business creation and entrepreneurial activity is a significant trend in the U.S. economy. Unfortunately, the anticipated rewards of small business ownership are often replaced with the reality of failure. It is often quoted that if business owners do not know where they are going, then it does not matter which road they take. Too often the road selected leads to failure. The contribution of this study is in advancing insight into the value of operational planning and, specifically, in a better understanding of the types of planning that are important to achieve success. Appropriate planning can assist the small business owner in identifying the correct road and improving the probability of their business success.

Despite contributions to the planning literature, study limitations do exist and need to be acknowledged. Study results are based on subjective self-reports and past perceptions of planning activities of the small business owners/managers. Although self-reports and past perceptions are a recognized and often used method of data collection, recognition must be given to the fact that data collected may not mirror the exact extent to which the planning process was conducted in the actual businesses. Therefore, it is recommended that further research incorporate objective measures of operational planning activities as further validation of subjective information. This study is also limited by the fact that there is a 40 percent response rate for successful small business retailers and a 70 percent response rate for failed small business retailers, thus creating the potential for nonresponse bias. Finally, data were collected from a specific type of retailer (apparel and accessory retailers) and findings may not be generalizable to the general small business retail population. Generalizability has yet to be determined.

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